1: Longrigg G-4, 5 (ca. 1915-1940) MH1 Iraq MH1

Politics and war-attitude apart, conditions in the territory throughout 1940 were as secure and tolerable as could be hoped. A number of offenders sentenced by the courts martial of previous régimes were liberated, the State of Emergency at al-Rashid camp, in force since March 1939, was brought to an end. Ṣubiḥ Najib was pardoned and released. The Ministry, to whom in some circles the revered Gaylani name was an asset, declared war on immorality, shut places of evil entertainment or drunkenness, and ostentatiously improved Waqf buildings. The foundation stone of the Faysal Mosque was laid. Observance of the Ramaḍhan fast was enforced by the daytime closing of restaurants. The completion of the Baiji–Mosul section of the railway, with its long tunnel, permitted at last a direct Baghdad–Istanbul service, though rolling stock available for use was of the scantiest. Work at the Ḥabbaniya reservoir was pressed forward. Oil production was normal again since the month-long interruption in September 1939, and both pipelines remained in use until the stoppage of pumping, on the Tripoli branch into Vichy–French territory, in July 1940. The sowings of cotton were much increased, and 25,000 bales produced. The Government tobacco monopoly was brought into effect, to the chagrin of many Kurdish growers whose freedom of disposal it curtailed. Agriculture was everywhere encouraged with a view to full national self-sufficiency, though the disastrous spring floods were a reminder of its precariousness.

Commercial and industrial life strove to maintain normality, or even progress. An ambitious Co-operative Society to produce fruit preserves was founded. The Agricultural and Industrial Bank was busy with loans to cultivators, and with the sale and servicing of agricultural machinery; it advanced money also to a new ginnery at 'Aziziya, took shares in the 'Iraq Cement Company, and helped a vegetable-oil extraction plant. Work proceeded on the Baghdad automatic telephone installation. The budget for 1940–1, which allotted a third of all revenues to the Army, found room for the cost of completing the irrigation work on the Abu Ghurayb, and for the Ḥawija project, the Diyalā weir, the Shamiya river improvement, and the 'bunds' around Baghdad. The credit allowed by the banks and *ṣarrafs* was extended or restricted according to the war news, market prices rose and fell, Government's control in the economic field was discreet and indeed largely inoperative. Shortage of shipping and transport vehicles were a serious hindrance to the export trade, whether conveyed by sea or by the land routes. A Turkish mission visited Baṣra with the hope of securing a southern gateway of entry for their country. The loss of French purchases of 'Iraqi wool was severely felt; trade with Japan on the contrary seemed likely to develop fast.

454
433
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(c) Industrial enterprises being carried out directly by various Government departments and agencies such as the Iraqi State Railways, the Port of Basrah, the Ministry of Defence, the municipalities, and the recently set up State Oil Refinery Administration which has already undertaken the construction near Baghdad of an oil refinery with an annual capacity of 1,000,000 tons of refined products, at an expected cost of about I.D. 7,000,000.

(d) Various handicrafts and semi-mechanised industries such as the date-packing industry.[1]

433 It need hardly be said that, although recent industrial development has been marked, it is still quite limited in relation to the economy as a whole and in comparison with industrial development in neighbouring areas. In Lebanon for instance, the industrial sector has been found to contribute approximately LL. 135 million, or 17 per cent of the total national income estimated at
434 LL. 830 million.[2] In our estimation, the industrial sector in Iraq contributes no more than 10 per cent of the total national income estimated at I.D. 150 million.[3]

000 The problems arising from, and the difficulties standing in the way of, industrialisation in Iraq, will now be discussed.

Industrialisation in general means the introduction of modern industry into an area which has been up to that time dependent for its livelihood on agriculture, trade and craftsmanship. Such an area would have had no experience of mechanised industrial processes, the organisation of modern factories, the division of labour inside such factories, nor would it have any clear idea of the material and human resources that such organisations would demand. Assuming that industrialisation of such a "new" or underdeveloped area is a desirable thing, two sets of problems seem likely to emerge. The first set of problems is connected with the ways and means of developing industry with reasonable speed. The second set of problems relates to the psychological, social and political effects that modern industry brings about.

1 For a brief but fairly comprehensive survey of industrial output and possibilities in Iraq see: *The Economic Development of Iraq*. Report of a mission organised by the International Bank for Reconstruction and Development. The Johns Hopkins Press, 1952. p. 148-50, also Annex D. p. 277 and following.

2 *National Income of Lebanon, Monograph No. 3* by Albert Y. Badre, Ph. D., and Asad Y. Nasr, M.A., Beirut, Lebanon, May 1953. Especially p. 24.

3 The ratio for more advanced countries is between 30 and 40 per cent.

7: International Bank N, 6-4 (1951) 1952 MH3 Iraq MH1

research. The Mission recommends that in the future such farms should be used primarily as experimental stations. Seed for distribution to farmers could be produced on land surplus to the needs of the experimental stations or on a contract basis under appropriate government supervision on private farms. The Mission suggests that immediate steps be taken to secure a research director to coordinate all existing research and to recruit a gradually expanding staff of full-time research experts consisting partly of foreigners and partly of Iraqis.

These measures will bring about an improvement in agriculture only very gradually. In the short run they will need to be supplemented by positive financial incentives. Most farmers will probably prove unwilling or unable to invest money or time in the cultivation of fodder crops or the use of fertilizers unless they are convinced through practical experience that such an investment is really worthwhile. In order to induce farmers to experiment themselves, the government may wish to consider providing free seed for fodder crops and defraying part of the cost of fertilizer, or, alternatively, making a flat money payment per donum to those undertaking to use fertilizers or grow feed. Such incentives should, of course, be offered only as long as is necessary to demonstrate the value of improved methods. The provision of credit for the acquisition of machinery, fertilizers and other means of production will also be helpful in this respect.

It has already been pointed out that the existing sharecropping system, coupled with the shifting nature of cultivation, militates against the introduction of soil-building and forage crops. Under present conditions the landlord will find it difficult to compel the fellah to grow such crops unless the fellah is actually paid for doing so. The Mission therefore suggests that the difficulties inherent in the sharecropping system, as well as the advisability of changes in this system, be studied by an expert on land tenure.

Tobacco and the Tobacco Monopoly

The Mission has paid special attention to tobacco, not only because cultivation of this crop is of considerable importance to the Kurdish farmers of the North, but also because tobacco leaf is

7: International Bank N, S-4 (1951) 1952 MH1 Iraq MH1

handled by a government monopoly, the operations of which have been highly controversial.

The Tobacco Monopoly was established in 1939 in order (1) to improve the quality of tobacco, (2) to assure farmers stable and remunerative prices, and (3) to raise revenue for the government, although this objective was not explicit and was certainly subordinate to the other two. The Monopoly licenses the area which may be planted to tobacco, buys the tobacco produced thereon at fixed prices set each year and resells it to manufacturers at prices more than twice as high as those it pays.

It is generally recognized that the first objective has not been realized, for the quality of tobacco, which was never high, has probably declined still further. Neither the Monopoly nor the Department of Agriculture has had the personnel to assist farmers in improving the varieties or strains of tobacco grown or the methods of cultivating, picking, curing and sorting, all of which leave much to be desired. The Monopoly's rather haphazard and often arbitrary system of grading and its limitation on the amount of tobacco it will buy per licensed donum have discouraged the production of better quality tobacco and the achievement of higher yields. Storage of tobacco in inadequate warehouses contributes further to its deterioration.

The second objective appears to have been at least partly realized, at least insofar as farmers have been given remunerative prices for their tobacco and have received a fairly stable income in the last five years. During the war years farmers enjoyed a bonanza since the Monopoly had no effective limitations on output, classified most of the tobacco in top grades and bought it at very high prices. After the war, changes in grading, stricter limitations on output and lower prices inevitably created discontent, although prices were still remunerative and, until recently, the Monopoly continued to buy more tobacco than the licensed output. The wide disparity between the Monopoly's buying and selling prices has continued, however, to put a premium on the illicit growing and marketing of tobacco. Moreover, the merchant has managed to interpose himself to an increasing extent between the grower and the Monopoly because of his ability to advance money on crops, to transport tobacco to distant collection centers and to obtain a

7: International Bank N, S-4 (1951) 1952 MH1 Iraq MH1

higher classification for the tobacco than the grower is often able to get. 249 655

The third objective has undoubtedly been achieved. During the period September 1, 1943 to March 31, 1950 the Monopoly's cash income exceeded its cash expenditures by almost 6.5 million dinars. In fact, contrary to original intentions, revenue would seem to have become the primary objective of the Monopoly.

Improvement in the quality of tobacco should be the primary aim in the future. The Mission therefore suggests that one or two foreign experts, together with a number of Iraqis, be engaged to work in the field in order to help farmers to better their methods of growing, picking, curing and sorting tobacco. At least one expert should be recruited to instruct graders in proper methods of classifying tobacco, and another expert with an Iraqi deputy should be appointed to approve all tobacco for final purchase by the Monopoly. The existing inadequate warehouses should be replaced by four or five new warehouses provided with dust extracting facilities and proper humidifying equipment.

The Mission believes that under existing circumstances the Monopoly should be retained. As long as the tobacco is not of such quality that it can be marketed abroad, there will need to be some agency to limit production. Moreover, in the absence of the Monopoly the large number of small growers would have inadequate bargaining power in the fixing of prices vis-a-vis the merchants and manufacturers. The Mission advises strongly, however, against the proposed extension of the Monopoly to the manufacture of tobacco products. Such a step seems hardly necessary, since manufacturing is generally in competent hands, and it would only divert the Monopoly's attention from the primary task of improving the quality of the tobacco. The Mission suggests that the Monopoly be reorganized as a fiscally autonomous agency within the Ministry of Agriculture recommended elsewhere in the report. The Monopoly should be headed by an Iraqi director-general assisted by an expert adviser and an advisory board which would include representatives of the growers. In order to discourage illicit marketing of tobacco, the difference between the Monopoly's buying and selling prices should be narrowed to an amount sufficient to cover operating costs and depreciation as well as the accumulation

7: International Bank N, S-4 (1951) 1952 MH1 Iraq MH1

of a small cash reserve. The resulting loss in revenue can be offset by an increase in the tobacco excises which are relatively easy to collect from the manufacturers. The reduction in illicit production and marketing thus achieved should make it possible to raise the existing limitation on output per donum. This would encourage the better farmers, yet probably would not necessitate a further restriction of the licensed area, which the Mission realizes would be politically impracticable.

The Introduction of Sugar

In view of the government's desire to introduce the cultivation of sugar beets in northern Iraq, this subject has also been given special attention by the Mission. The possibility merits serious consideration because Iraq has imported over the last three years, on the average, 75,000 tons of sugar annually. There is, in addition, a serious need for new crops to diversify production and make more effective use of the manpower on the land. The Mission believes, however, that no decision on the production of sugar should be made until there is reasonable assurance that sugar can be produced at a cost competitive with the landed price of imported sugar (thus exclusive of import duty) and that the farmer will derive an income from sugar at least equal to that obtained from alternative crops, such as cotton, which can be grown on the same land. Moreover, before a decision is made in favor of sugar beets, the superiority of this crop over sugar cane, which could be grown in the South, must have been clearly established.

Sugar beets have been successfully grown in northern Iraq in test plantings carried out by the Department of Agriculture. Larger and more extensive test plantings are necessary, however, particularly to study the problems of insect control, yields and costs. The problems of labor supply and transport also need to be more thoroughly explored. The cultivation, transport and processing of sugar beets require close coordination and therefore careful organization. The production of beets is exacting, requiring considerable skill and labor. While preliminary evidence indicates that, on the basis of current price relationships, the yield per donum of sugar beets and cotton would not be significantly different, the balance of advantage may well prove to be on the side of cotton since, owing

7: International Bank N, S-4 (1951) 1952 MH1 Iraq MH1

thereby put on smuggling which is difficult to control in a country with long land frontiers, even with a large police force. On the other hand, smuggled goods can now be purchased quite openly, and it is hard to believe that enforcement could not be made more effective.

In any event, outright restriction of imports could cause prices to rise and so put almost as great a premium on smuggling as a high tariff. The government has tried to prevent excessive mark-ups on certain goods such as radios by price control measures, but the control is by no means fully effective.

The government has also supplemented the system by entering the market itself. For example, arrangements have been made under the recent Trade Agreement with India for the import of cotton textiles and gunny bags, in part on government account. The government has also made direct purchases from abroad of its own requirements (e.g. tires). The effect has, however, not always been as intended, merchants being hesitant to buy with the prospect of large government stocks hanging over the market.

On the whole, a less complex system of import control would seem better suited to an economy like that of Iraq, whose requirements are likely to change in composition and to increase quite rapidly. Fewer regulations, more strictly enforced, are likely to serve better the two ends of social justice and public revenue.

Balance of Payments

The bulk of foreign transactions are carried out through the commercial banks, which are subject to exchange controls, or through government channels such as the National Bank. However, numerous transactions pass through other channels and many of them are virtually impossible to estimate. For this reason the Mission has not attempted to construct a true balance of payments. Table 14 shows the foreign exchange transactions passing through the principal official channels, so far as they are known to the Mission. The other items which would enter into a complete balance of payments are discussed subsequently.

As will be seen, even this account, which it should ordinarily be possible to balance, is subject to a wide margin of error for which no explanation is available. The general significance of the

7: International Bank N, S-4 (1951) 1952 MH1 Iraq MH1

TABLE 19

Composition of Government Receipts

(in millions of dinars)

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	Actual results			Estimates
	1948-49	1949-50	1950-51[1]	1951-52
A. Taxes				
Direct taxes:				
Land tax [2]	0.6	0.4	0.4	0.4
Property tax	0.6	0.8	0.8	0.6
Income tax	2.2	2.4	2.4	1.7
Total direct taxes	3.4	3.6	3.6	2.7
Indirect taxes:				
Turnover tax on agricultural produce and animals	3.2	3.6	4.6	4.7
Customs Excises	9.8	11.3	13.0	9.4 3.1
Stamp duties	0.5	0.5	0.5	0.6
Tobacco Monopoly (net)[3]	0.3	0.4	n.a.	1.2
Total indirect taxes	13.8	15.8	18.1	19.0
Total tax receipts	17.2	19.4	21.7	21.7
B. Other receipts				
Share in National Bank's profits	—	—	0.6	0.7
Oil royalties	2.0	3.2	5.0	1.8[4]
Posts and telegraphs (gross)	1.0	1.1	1.2	1.2
All other receipts	3.0	3.3	2.6	2.8
Total other receipts	6.0	7.6	9.4	6.5
Grand Total	23.2	27.0	21.1	28.2

[1] Preliminary.

[2] Actually a tax in respect of land rent and water rights.

[3] The amount credited to the budget does not represent the actual surplus of the Monopoly's cash receipts over expenditures which amounted to ID 2,200,000 in 1948-49 and ID 1,200,000 in 1949-50. The Monopoly's "accounting" contribution to the budget is computed by (1) taking the difference between cash income and cash expenditures realized by the Monopoly in its transactions in tobacco, tombak and cigarette paper, (2) adding or subtracting the net charge in the value of the Monopoly's stocks during the year, and (3) adding sundry revenues from confiscated tobacco license fees, storage, etc. [655]

[4] Represents only royalties to be received on oil production in the first quarter of the 1950 calendar year, the remainder being credited to the Development Board.

7: International Bank N, S-4 (1951) 1952 MH1 Iraq MH1

varieties of pistachio scions on established native pistachio trees should be given particular attention. Almond orchards could be increased to advantage.

Vegetables and Potatoes

Vegetable culture is concentrated in the neighborhood of the large cities where such products as radishes, lettuce, cabbage, cucumbers, squash, tomatoes and others are in good supply during the season. Unfortunately vegetables do not figure prominently in the diet of most people. Outside of the big towns little or no vegetables are eaten. In part, this appears to be due to the fact that tribal tradition holds the cultivation of vegetables in low esteem. However, where the sharecropper is inclined to grow vegetables, he may be discouraged by the lack of available land or the shifting of the area assigned to him for cultivation. If a determined effort were made by the government to enlist the cooperation of the landowners, it might not be too difficult to overcome these obstacles.

It might be desirable to increase the production of potatoes which are now imported to the value of about ID 100,000 per year. The lighter soils along the large streams in the provinces of Mosul, Erbil and Suleimaniya are particularly well adapted to the production of both Irish and sweet potatoes. With proper guidance in cultural practices and the use of fertilizers, planters in these areas could easily supply the country's needs. If it is demonstrated that potato yields compare favorably with other crops, the government might well encourage the planting of potatoes both by launching an educational campaign and by furnishing the necessary seed to planters. Special attention will need to be given to transport, however, and the growers will have to be shown how to build inexpensive potato bins or pits with sufficient ventilation, insulation and accessibility.

Tobacco

Tobacco has been grown to some extent in the North for centuries, although it was not until the last few decades that its production assumed importance. Even now, the value of the tobacco crop is probably no more than a tenth of that of wheat or barley. In the mountainous areas of Erbil and Suleimaniya, however, it is

7: International Bank N, S-4 (1951) 1952 MH1 Iraq MH1

247
635

the principal crop of the Kurdish farmers. Moreover, the way in which tobacco has been bought, sold and handled by the government Monopoly has created much controversy. At the same time the Monopoly's operations have yielded considerable profits to the Treasury. Finally, the government is hopeful of expanding the production of tobacco, which is at present grown only for home consumption, so that it will make a significant contribution to exports. For all these reasons tobacco has become an important and controversial subject.

The purchase and sale of raw tobacco and tombak was vested in the government by law No. 35 of 1939. This legislation also instituted government licensing of the manufacturing, importation, wholesaling and retailing of cigarettes and controls over the importation of cigarette paper, boxes and other requisites for the manufacture of cigarettes. Operation of the Monopoly was at first entrusted to the Customs Department but in 1943 it was transferred to a separate Directorate-General within the Ministry of Economics. The original law did not detail the objectives of the Monopoly beyond specifying that "one of its main objectives shall be the improvement of tobacco." Apparently, however, other objectives were (1) to assure the cultivators fixed and remunerative prices for their tobacco, and (2) to raise revenue for the government.

Quality of Tobacco

The principal objective of the Monopoly has certainly not been achieved. In fact, it is generally recognized that the quality of tobacco has deteriorated rather than improved during its existence. The reasons for this are many. First of all, neither the Monopoly nor the Department of Agriculture has given farmers any assistance in improving their crop even though the cultivation, picking and curing of tobacco require considerable knowledge and skill which has been largely lacking in Iraq. The tobacco now grown is a mixture of several varieties not at all uniform in type, time of maturity or quality. Instead of picking the leaves individually starting at the bottom of the stem, the whole plant is frequently harvested at once. Curing is haphazard, with immediate exposure of the leaves to the sun instead of retaining them in a wilting shed

7: International Bank N, S-4 (1951) 1952 MH1 Iraq MH1

for three or four days. In packing and grading, growers do not separate the bottom, middle and top leaves or take care that packing takes place only when the moisture content and the pliability of the leaves are just right.

The second reason for the poor quality is inadequate grading and manipulation by the Monopoly. Tobacco is graded for the Monopoly by committees whose members are generally untrained. Classification is by color only and a bale given a single grade often has tobacco ranging through all shades of green, yellow and brown. Influential cultivators, or merchants acting on their behalf, can often obtain grades for their tobacco unwarranted by its merits. Thus the grading system offers little or no incentive to the grower to produce the best possible tobacco. Finally, the Monopoly stores tobacco under conditions which contribute to its rapid deterioration. Warehouses are often exposed to the elements and are without temperature and humidity control so that tobacco may alternately ferment and dry out. Little re-grading or manipulation is done in warehouses.

Farmer Income from Tobacco

Whether the Kurdish farmers have on the whole obtained an adequate income from tobacco is less easy to determine. Their income from tobacco has depended on (1) the amount of tobacco purchased from each year's crop by the Monopoly and the prices (less *istihlak* and land tax) paid, and (2) the amount of tobacco sold illicitly and the prices realized thereon. Unfortunately, not enough data are available to permit an estimate of the income of tobacco farmers. Data on prices paid by the Monopoly for the first three years of its operation are lacking; figures on total tobacco production, from which the amount marketed illicitly might be deduced, do not exist; and little or nothing is known about the prices realized on tobacco marketed illegally.

During the war the Monopoly, which was supposed to equate the supply of tobacco with demand by licensing the area under cultivation, apparently made no real effort to use licensing as an instrument for the restriction of production. The area licensed rose steadily from 28,014 donums in 1940 to a peak of 71,730 in 1944. In the period 1943-45 the income of farmers was also considerably

7: International Bank N, S-4 (1951) 1952 MH1 Iraq MH1

249 435 666

increased by classifying a much larger proportion of their output as "extra" or "first" grades which, of course, fetched higher prices. At the same time the Monopoly boosted the prices paid for the 1944 crop to a level more than twice as high as those which had prevailed for the 1943 crop. For the 1945 crop it lowered its prices somewhat but still maintained them at a level approximately twice as high as in 1943. As a result the Kurdish farmers reaped a bonanza. Whereas the Monopoly paid only ID 634,005 for the 1943 crop, it disbursed ID 3,208,032 for the 1944 crop and ID 3,608,997 for the 1945 crop (see table).

TABLE 1

LICENSING AND PURCHASING OPERATIONS OF THE TOBACCO MONOPOLY

Year	Donums Licensed	Prices Paid for Each Grade (1943 = 100)				Total Purchases	
		Extra	First	Second	Third	Quantity (kg)	Value (dinars)
1943	57,747	100	100	100	100	4,080,787	634,005
1944	71,730	247	233	229	250	8,863,022	3,208,032
1945	34,797	210	198	194	211	12,582,734	3,608,997
1946	26,818	140	151	183	214	4,395,166	746,499
1947	19,225	154	167	202	236	4,231,320	757,152
1948	15,500	140	151	183	214	4,347,639	772,729
1949	15,500	140	151	183	214	6,621,905	1,326,291
1950	16,000	140	151	183	214	n.a.	n.a.

Beginning in 1946 the Monopoly began to retrench sharply. The area licensed was reduced successively to 19,225 donums in 1947 and 15,500 in 1948, and it has since been held to approximately this level. Prices were also lowered to some extent. Most important of all, a stricter grading policy was adopted, resulting since 1946 in the virtual elimination of purchases of the "extra" grade and substantial reduction in the proportion of "first" grade tobacco purchased. As a result the Monopoly's disbursements for purchases from the 1946 crop fell to only ID 746,499. They have since been maintained at approximately this annual level except for the amount paid for the 1949 crop which amounted to ID 1,326,291. The quantity purchased of each year's crop fell from a peak of 12,600,000 kilograms in 1945 to about 4,400,000 in 1946,

7: International Bank N, S-4 (1951) 1952 MH1 Iraq MH1

4,200,000 in 1947, 4,300,000 in 1948, and rose again to 6,600,000 in 1949. Actually, the Monopoly by no means fully enforced its announced policy of buying no more than the maximum amount that the licensed area could ostensibly produce.[4] Its purchases exceeded the ostensible maximum by about 400,000 kilos for the 1947 crop, 1,200,000 for the 1948 crop and as much as 3,500,000 for the 1949 crop. Much of the 1946, 1947 and 1948 crops evidently found their way into the black market.

Because of the danger of growing stocks, the Director-General, supported by the Prime Minister, issued a warning in advance of the 1950 crop that in the future no more tobacco would be bought than could be produced on the licensed area. Evidently the Monopoly carried out this policy for, up to April 12, 1951, it had bought only 2,250,000 kilos from the 1950 crop out of a theoretical total of 3,200,000 kilos. Since the cultivators apparently did not take the government's declared intention seriously, the actual crop substantially exceeded the permissible total. However, farmers were apparently compelled to sell their surplus illicitly at very low prices, thus giving rise to an expectation that in the next years the limitation on production will be more generally observed. If so, it seems likely that farmers' receipts from tobacco will amount to between ID 600,000 and ID 700,000 per year at prevailing Monopoly prices.

In general, it can probably be said that farmers received more for their tobacco than they would have obtained in the absence of the Monopoly. Since the tobacco produced is generally poor and therefore is unable to find foreign outlets, it is likely that, in the absence of the Monopoly's price support and production control program, prices would have been substantially lower. At the same time, the farmers suffered from the rather erratic policies of the Monopoly which permitted them to realize very high incomes during some of the war years and let them down suddenly immediately after the war.

Tobacco Monopoly Revenues

The government has undoubtedly enjoyed considerable income from the Monopoly. In any discussion of this subject a distinction

[4] The Monopoly has operated on the assumption that each licensed donum would produce up to a maximum of 200 kg. of tobacco.

7: International Bank N. S-4 (1951) 1952 MH1 Iraq MH1

651 655 must be made between (1) the actual cash income and cash expenditures of the Monopoly, which is of particular importance to the Treasury and (2) the Monopoly's accounting contribution to the budget. These two differ markedly, as is indicated below.

TABLE 2

CASH AND ACCOUNTING RETURNS OF THE TOBACCO MONOPOLY
(in dinars)

	Cash on Treasury Account			Contribution to the Budget
	Cash Income	Cash Expenditure	Balance	
Sept. 1, 1943-Mar. 31, 1946	6,760,878	5,692,965	+1,067,913	2,147,275
1946-47	3,518,655	3,807,628	−288,973	3,479,436
1947-48	3,580,232	1,340,388	+2,239,894	1,860,358
1948-49	3,061,214	844,814	+2,216,399	342,902
1949-50	2,240,234	1,036,028	+1,204,207	424,272
Total	19,161,213	12,721,773	+6,439,440	8,254,243

The accounting contribution to the budget is figured by (1) calculating the difference between cash income and cash expenditure realized by the Monopoly in its transactions in tobacco, tombak and cigarette paper, (2) adding or subtracting the net change in the value of the Monopoly's stocks during the year, and (3) adding sundry revenues from confiscated tobacco, license fees, storage, etc. Thus in 1946-47, the accounting contribution to the budget was large despite the cash deficit incurred by the Monopoly because stocks rose markedly. In 1948-49, on the other hand, the contribution to the budget was small in relation to the cash surplus of the Monopoly because stocks of tobacco and tombak during the year fell from 9,100,000 to 6,700,000 kilos. Finally, the contribution to the budget in 1949-50 was small because at the end of that year stocks were valued for the first time at purchase price instead of sales price as hitherto. As a result the valuation of stocks was substantially reduced despite the fact that the quantity of tobacco and tombak on hand had increased from 6,700,000 to 7,800,000 kilos.

By and large it certainly can be said that the Monopoly has yielded substantial revenues to the government. This revenue has

7: International Bank N, S-4 (1951) 1952 MH1 Iraq MH1

accrued despite rather inefficient operation because the Monopoly has consistently charged tobacco manufacturers prices two to two and a half times higher than those it paid for tobacco and it has been able to compel them to accept tobacco at the grade which it has specified, despite the marked deterioration of such tobacco in the Monopoly's warehouses.

Recommendations

In the future the first concern should be improvement in the quality of tobacco. To accomplish this it would be desirable first of all to recruit abroad at least two or three experts on the growing of tobacco. These, assisted by a selected number of Iraqis, would work directly with the growers in a campaign to raise the standards of cultivation, picking and curing. In addition, a minimum of two leaf experts should be engaged to give instruction in the proper methods of grading or classifying tobacco. In order to provide a check on the work of the grading committees, the appointment of an expert buyer to approve all tobacco for final purchase by the Monopoly is recommended. He would presumably need to be a foreigner initially, but would have an Iraqi deputy who would be trained to take his place. In the warehouses, several experienced foremen-manipulators are needed to supervise and teach the staff correct methods of handling and storing the tobacco. The inadequate existing warehouses should be replaced with four to five new ones constructed of brick and concrete, equipped with dust extracting and humidifying plant and portable storage racks. Each of these new warehouses would have four floors, the first three devoted to storage and the fourth to manipulation.

The Monopoly itself might be retained, principally because there will need to be some agency to limit production as long as the tobacco is not of such quality that it can readily be sold abroad. Moreover, the large number of small tobacco growers might otherwise be at the mercy of the merchants and manufacturers who would have incomparably more bargaining power in the fixing of prices. It is suggested, however, that the Monopoly be reorganized into a financially autonomous agency with its own budget, its own accounts and its own funds. As an autonomous government enterprise it would be required to turn over annually to the Treasury

7: International Bank N, S-4 (1951) 1952 MH1 Iraq MH1

249
655

its profits, less a suitable reserve, determined in accordance with approved accounting practice. An expert accountant should be engaged to draw up a proper system of accounting for the agency. In this connection it would be desirable to revalue the stocks of the Monopoly realistically after destroying inferior and excessively deteriorated tobaccos. The Monopoly would be headed, as at present, by a Director-General who might usefully be assisted by an adviser of recognized competence in the production and handling of tobacco. It would be desirable also to have an advisory board on which both manufacturers and growers could be represented.

The existing wide disparity between the buying and selling prices of the Monopoly provides a powerful incentive to illicit production and marketing of tobacco. The Mission strongly urges that this differential be greatly narrowed to a point where it is sufficient only to cover the expenditures of the Monopoly, plus a reasonable reserve. The revenue lost in this way could be collected in the form of additional excises on the manufacturers whose output and sales can be controlled relatively easily.

The present limitation on the amount of tobacco which the Monopoly will purchase from each licensed donum discourages productivity and should accordingly be lifted. This would not necessarily mean a further contraction of the licensed area, for the curtailment of black marketing resulting from the reduction of the difference between the Monopoly's buying and selling prices should enable the Monopoly to buy and sell more tobacco.

The Mission believes it would be very unwise to adopt current proposals to extend the Monopoly's operations to the manufacture of tobacco products. The remedy for the poor quality of tobacco does not lie in government assumption of manufacturing operations. The present manufacturers turn out a reasonably good product considering the quality of their materials. Their production costs are also likely to compare favorably with those that could be achieved with government operation.

7: International Bank N, S-4 (1951) 1952 MH1 Iraq MH1

available for rental by the Agricultural Machinery Administration, an autonomous agency within the Ministry of Economics.[7]

Further progress will be seriously impeded, however, unless means are found to prolong the life of machinery which is now less than half what it is in the United States. The shortage of spare parts and repair facilities has been very discouraging to machinery owners. The failure of private dealers to provide these largely inspired the government's original decision to establish the Agricultural Machinery Administration as a monopoly for the importation and distribution of agricultural machinery. In accordance with suggestions made by an earlier International Bank Mission, the government has tried to meet the problem by different measures, namely by licensing dealers only on condition they agree to set up repair facilities and maintain an adequate stock of spare parts. The enforcement of these requirements, however, will not provide a complete solution, even if it is supplemented by completion of the AMA program for setting up its own repair facilities at Baghdad, Kirkuk, Mosul, Diwaniya and Kut. The AMA and private dealers should also cooperate in conducting courses in operation and elementary maintenance of machines for drivers. Moreover, simple local facilities to carry out all but major repairs are needed. An adequate number of mechanics both for the central and local repair shops must be trained, and for this purpose foreign shop supervisors and instructors will be necessary. The Industrial Bank may have to cooperate by providing small loans for equipping local shops.

The AMA now performs a number of useful functions. It regulates imports and the distribution of spare parts and tests different types of machinery for their adaptability to conditions in Iraq. Most important, it maintains a pool of machinery for rental. In some respects its operations could undoubtedly be improved.

[7] An official estimate given to the Mission gives a total of 320 combines and 750 tractors. Customs statistics for the years 1945 to 1950 inclusive, however, show that only 632 tractors and 262 combines were imported. Part of these are already out of commission. An on-the-spot survey in each province by a member of the Mission indicated that only 170 combines and 549 tractors, exclusive of government-owned machines, were in operation. Of the combines, Mosul had 75; Baghdad, 75; seven provinces, one to five each; and five provinces, none. Of the tractors, Baghdad had 250; Mosul, 150; Kut, 40; Kirkuk, 23; Erbil, 15; six provinces, less than 10 each; and three provinces, none.

7: International Bank N, S-4 (1951) 1952 MH1 Iraq MH1

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With a larger and more qualified staff it could do a better job in advising farmers on the type of machinery best suited to their needs and could undertake the tasks outlined in the preceding paragraph. It might also pay more attention to finding and testing the type of machinery that would be particularly useful on smaller holdings. Above all, in its rental service it should charge rates which will not cause it to run a large deficit or discourage private ownership of machinery.

The rental service itself performs a useful function and should be continued until private enterprise can provide the same service on the basis of a reasonable return or until sufficient cooperatives can be organized to provide machinery for their members. Many landowners cannot now afford to buy a machine, and others will not risk buying until they have had a chance to test its value by renting one. The AMA, however, now sustains heavy losses on its rental operation. For the calendar year 1951 its operating expenditures are expected to be ID 150,463 as compared with a projected rental income of only ID 50,000. For the two years 1950 and 1951, the total cash deficit of the Administration will probably amount to about ID 222,000.[8] It has been able to finance such deficits only by using up the balance of the capital contribution of ID 500,000 which the government originally made to the agency. Since ID 235,750 of this contribution consisted of machinery and buildings, very little of the remaining cash will have been left by the end of 1951. The AMA's financial situation is all the more acute because it now urgently needs funds to purchase new machinery and equipment at a rate of perhaps ID 250,000 per year. In the past there has been no depreciation reserve for the replacement of machinery. To meet this financial emergency it will be necessary to make the rental operation self-sustaining. In part this can be accomplished by reducing expenditures. Probably more important, however, will be an increase in rentals, especially those on tractors which are now relatively low. A continuing government contribution to the total budget of the AMA will probably be merited, but only to the approximate extent to which AMA expenditures are attributable to functions other than the rental of

[8] For the 1950 and 1951 budgets of the AMA, see Tables I and II in the appendix.

7: International Bank N. S-4 (1951) 1952 MH1 Iraq MH1

machinery. At the same time the cost of new machinery and equipment will need to be financed—possibly out of Development Board funds if earlier plans to borrow for this purpose from the International Bank do not materialize.

Government rental of machinery should at best be considered a temporary expedient. It is wasteful, primarily because overhead expenses are high. The transportation of machinery from central shops to the renters tends to be expensive and to expose the machinery to excessive wear and tear. Private and cooperative ownership of machinery should therefore be encouraged. One step in this direction would be to enable the Agricultural Bank to lend money for this purpose on the security of the machinery. In the past the absence of any provision for registering title to such machinery has prevented such loans. Another important measure would be to encourage the establishment of cooperatives for the collective ownership of machinery, especially in the new agricultural areas which are to be opened. At present the producers' cooperative in the Dujaila project owns a number of tractors. Because overhead costs are relatively low it is able to rent them out at lower rate than the AMA while still apparently covering the cost of operation and depreciation.

V. Control of Pests and Diseases

Livestock Pests and Mortality

More effective control of pests and diseases would also materially help to improve yields. This is particularly true of livestock. Because of lack of funds, equipment and trained personnel, no systematic campaigns for eradicating specific groups of diseases have been undertaken. Many livestock diseases, particularly of the parasitic type, are rife. Among the principal livestock diseases are foot and mouth disease; haemorrhagic septicaemia; anthrax; sheep pox; blackleg; parasitic gastritis; tick-borne diseases (anaplasmosis and piroplasmosis); fowl cholera; Newcastle disease; various manges; and dourine. The available staff is wholly insufficient to control, let alone eradicate, any epidemic which might break out. A serious outbreak of disease would endanger the livestock industry of neighboring countries as well as that of Iraq.

7: International Bank N, S-4 (1951) 1952 MH1 Iraq MH1

By and large this new partnership between the oil companies and the government should prove mutually beneficial.

The Government for several years has been considering the building of a modern oil refinery near Baghdad. In recent months, final plans were formulated and arrangements for its construction have apparently been made. This refinery, estimated to cost at least ID 7,000,000, is designed for an annual capacity of approximately 1,000,000 tons and when completed should be able to supply all of Iraq's anticipated requirements for refined petroleum products except for certain specialties.

The project will probably make it necessary to close the Alwand refinery, owned until recently by a subsidiary of the Anglo-Iranian Oil Company,[1] now producing something less than 70 percent of Iraq's requirements. Likewise, the use of Kirkuk crude, which can be obtained by the Government at cost, will probably make it necessary to close down the small oil field near Khanaqin which supplies the Alwand refinery, since it is unlikely that the oil resources in and near this field can be developed to such an extent that investment in a pipeline for export of the crude would be warranted.

Cotton and Rayon Textiles

In 1947, a cotton spinning and weaving mill was started near Baghdad, with a pilot plant consisting of 5,000 spindles and 84 automatic looms. The second stage, which is something over 70 percent complete, consists of 22,000 spindles and 500 automatic looms. The plant is modern in design and includes dyeing, printing and finishing equipment. About one half of the equipment has been in full operation for over a year, and shows good returns for an uncompleted plant which has not reached stabilized operation conditions. When completed and when operating on a full three-shift basis, it is expected that the spinning mill will produce 6,000,000 lbs. of yarn annually. Part of the spinning capacity is used in making yarn for sale to other small textile mills or even for home industries for weaving into cloth. In Mosul, for example, there are over 1,000 hand looms in various small home industries

[1] By an agreement reached in December 1951, the government took over ownership of the refinery, retaining the AIOC subsidiary provisionally as its operating agent.

2: United Nations U-4 (no date) 1950 M1 Middle East
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505 In 1947, the number of steam and motor boats fell slightly to 172 vessels with a total tonnage of 10,645 tons. On the other hand, the number of special motor boats for passenger transport increased to 388.

Railways

496 The railway network and railway transport in Iraq are not yet sufficiently developed; but the authorities are making considerable efforts to remedy this state of affairs.

[471] In 1902 the Germans obtained a concession for building the Istanbul—Baghdad railway line—the "Baghdad Bahn"—a project in keeping with the *Drang nach Osten;* they began the work in 1903, but had only completed a few sections by the eve of the First World War. The work resumed under very different conditions after the First World War, and was completed in July 1940, when the Baiji—Mosul —Tel Kochek section was opened in the territory of Iraq.

[655] The Iraqi railway network, which is owned by the State, now consists of the following lines:

64: Shwadran S-4 (no date) 1955 MI Middle East
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Israel upset the normal growth, the serious disturbance in the production of Middle East oil through the Iranian attempt at nationalization and the terms of the 1952 agreement caused production to jump to spectacular heights, and with it the revenue of the Iraq Government.

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These same factors made possible the expansion of refinery facilities in Iraq and their ownership by the Government; internal distribution was also taken over by the Government, and at least part of the industry will be run by the Iraqis themselves. The future of Iraqi oil production, or at least the rate of production, will depend greatly on the world oil market and prices as the new guaranteed Iranian oil production again comes into the market, and on how this new flow of oil will affect the other producing areas in the Middle East.